

In the Matter of)	No. G2000-67
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
COMMONWEALTH INSURANCE)	AND ORDER ADOPTING REPORT
COMPANY OF AMERICA)	

A Domestic Insurer. _____

BACKGROUND

An examination of the financial condition of **COMMONWEALTH INSURANCE COMPANY OF AMERICA** (the Company) as of December 31, 1998, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a stock insurer. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions and comments and recommendations was transmitted to the Company for its comments on October 30, 2000. The Company's response to the report is attached to this order only for the purpose of providing convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 2 through 26 of the report.

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **COMMONWEALTH INSURANCE COMPANY OF AMERICA**.

ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions and Comments and Recommendations contained in the examination report on pages 3-6.

1. The Company is ordered to amend Article II-Section 1 of the Corporate Bylaws to change the time period for holding the annual meeting of the shareholders from within five (5) months after the close of the fiscal year of the Corporation to within four (4) months, as required by RCW 48.07.040. (Instruction 1A)
2. The Company is ordered to amend Article III-Section 10 of the Corporate Bylaws to stipulate that directors may be removed with cause by a vote of a majority of its shareholders and said director may be removed without cause by a vote of sixty-seven percent of its shareholders, as required by RCW 48.07.050. (Instruction 1B)
3. The Company is ordered to hold the annual meeting of its shareholders or members in the month of January, February, March or April, for the purpose of receiving reports of its affairs and to elect directors, as required by RCW 48.07.040. (Instruction 2)
4. The Company is ordered to amend its Aggregate Excess of Loss Reinsurance Agreement with Commonwealth Insurance Company, the parent company, to include an insolvency provision, as required by RCW 48.12.162(1)(b). Until the Excess of Loss Reinsurance Agreement is amended, the Company is ordered not to claim any reserve credits for coverage provided by this agreement when preparing its Annual Statement filings. (Instructions 3A and 3B)

5. The Company is ordered to utilize the services of a reinsurance intermediary that is licensed in Washington State or another state with similar regulations, as required by RCW 48.94.010(1). (Instruction 4A)
6. The Company is ordered to execute written authorization with all of its reinsurance intermediaries, specifying the responsibilities of each party, as required by RCW 48.94.015. (Instruction 4B)
7. The Company is ordered to have all funds collected by the two (2) non-licensed intermediaries, on behalf of the Company, held by a qualified United States financial institution, as required by RCW 48.94.015(3). (Instruction 4C)
8. The Company is ordered to non-admit the portion of its investments that exceeds the 4% limitation, as required by RCW 48.13.030. (Instruction 5A)
9. The Company is ordered to complete Schedule D – Part 1 using Market Rates obtained from the Securities Valuation Office, as required by NAIC Annual Statement Instructions and RCW 48.05.250. (Instruction 5B)
10. The Company is ordered to amend its custodial agreement with U.S. Bank of Washington, eliminating Paragraph 2.02-6, which requires approval in writing by the Insurance Commissioner for the withdrawal of assets from the custodian account and, open a separate depository account, for the purpose of holding securities held as collateral with the Office of Insurance Commissioner (OIC), and to execute a proper Tri-Party Agreement with the OIC and the bank. (Instruction 6A and 6B)
11. The Company is ordered to report on Schedule E – Part 2 – ‘Special Deposits’ only such securities that have been placed on deposit with the Washington State Office of Insurance Commissioner or with another state insurance department as Special Deposits Office, as required by NAIC Annual Statement Instructions and RCW 48.05.250. (Instruction 7)
12. The Company is ordered to consider writing and testing for effectiveness a Disaster Recovery Plan for its EDP system that includes appropriate escalation procedures to resolve operational failures in a timely manner, per NAIC Guidelines and RCW 48.07.160. (Comments and Recommendations 1)

13. The Company is ordered to consider submitting regular quarterly payments to Commonwealth Insurance Company for services and facilities provided pursuant to and in accordance with the terms of the Service and Cost Allocation Agreement. (Comments and Recommendations 2)
14. The Company is ordered to consider amending Article III – Section I of the Corporate Bylaws, by adding a new subparagraph, requiring not less than three-fourths of the directors of the Corporation to be United States or Canadian citizens, as required by RCW 48.07.050. (Comments and Recommendations 3)

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Lacey, Washington, this 21st day of December, 2000.

DEBORAH SENN
Insurance Commissioner

By:

JAMES T. ODIORNE, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division